Fed Gives the Markets Something to Be Thankful for in November

The financial markets had a lot to be thankful for in November and, consequently, so did most investors. After three months of losses, Wall Street reversed course in November and the bond market finally caught a break as well. The main force behind this welcome turnaround was the Federal Reserve, as Chairman Jerome Powell, at last, sent the signal investors have been waiting for – that the Fed is probably finished raising short-term interest rates.

Although the Fed didn't definitively say they are done raising rates, they strongly hinted at it mid-month based on the release of a slew of economic data indicating that inflation is continuing to slow.[1] As you know, controlling inflation was the Fed's main objective when it started rapidly raising rates in March of 2022. Skyrocketing interest rates created strong headwinds that put the portfolios of most investors under water coming into 2023. But things have gradually improved throughout the year as the Fed has slowed its pace due to falling inflation. With the full effect of all those rate increases yet to be felt in the already cooling economy, the Fed finally seems comfortable with at least hinting at the phrase, "Mission accomplished."

To say that this comes as welcome news for investors is an understatement. For several months before November, the markets seemed guarded at best about the prospect of the Fed finally turning dovish. As noted, Wall Street finished in the red from August through October, while sell-offs in the bond market pushed long-term interest rates up to almost 5%.

Headwind to Tailwind

Rising interest rates generally decrease the value of all assets, which is obviously why investors were so worried about the prospect of more hiking by the Fed – and why Powell's latest remarks triggered a big market rebound. The S&P 500 finished November up by 8.82%, bringing its year-to-date growth back to 18.97% despite those three months of losses. The Dow Jones Industrial Average, meanwhile, rose by 8.77% last month, bringing its year-to-date growth rate to 8.46%.[2] As for the bond market, its November turn-around not only halted the headwind bond investors had been facing for three months, it created a nice tailwind, as the interest rate on the 10-year government bond fell from 4.93% to 4.33% by the end of the month.[3]

Now that the markets seem confident the Fed is probably done raising rates, discussion has turned to when they might start lowering them again. With the Fed's benchmark short-term rate up to 5.5%, they now have plenty of room to lower rates if they feel the economy is cooling too much and needs help. Many analysts still believe that once the full effects of the Fed's rate hikes do hit the economy, a recession is

Continued on page 2

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Fed Gives

Continued from page 1

likely to occur. Either way, most market watchers believe that at some point the Fed is likely to start lowering rates again, for whatever reason, but speculation as to when that might happen ranges from as early as March to as late as next December.

A steady period of declining interest rates would likely create a sustained tailwind for investors, much like the incidental one that boosted portfolio values in November. As for our Sound Income Strategies portfolios, if you're in one of our portfolios of bonds and bond-like instruments, you should see your values up about 7% on average, depending on your individual holdings. That puts you up by about 10% on average year-to-date, which means you've now recovered nearly all the losses caused by that constant interest rate headwind in 2022. Of course, that 10% applies only if you're reinvesting your income and getting the total return. If you're taking the income, your year-to-date growth rate is more like 5-to-6% on average. Either way, it's hard to argue that compared to where we all were last year at this time, the picture is much brighter now – and it may get even brighter by the end of the year.

Calmer Seas

All of this pretty much confirms something I've been saying for several months: that the worst is over in terms of all the market challenges we faced last year and early this year, and that we've weathered yet another storm and are likely heading back toward calmer seas. Not only that, but we've also weathered it better than many others because we have a strategy specifically designed to help you through these difficult periods. A strategy that makes your "losses" only temporary paper losses and ensures that your income return won't be affected.

Continued on page 3

Fed Gives

Continued from page 2

Still, as I also frequently say, I know that psychologically it's always more gratifying to see your asset values growing than it is to see them shrinking, so in that respect, I'm sure that you're thankful for November's turnaround, too, and for how your portfolios look this year compared to last year!

While shifting market forces have a lot to do with how well our portfolios have recovered, I want to stress that our portfolio managers at Sound Income Strategies also deserve a lot of credit. As noted, if you're reinvesting the interest and dividends from your bonds and bond-like instruments, your portfolio is up by an average of about 10% year-to-date. That's compared to the Bloomberg Aggregate Bond Index, which is up by only about 3% YTD. In other words, we're beating our benchmark by a healthy margin, and that's thanks to our Chief Investment Officer at SIS and the excellent job he does!

Finally, I mentioned last month that a clerical issue resulting from the way Schwab transferred our account information from TD Ameritrade this summer may have resulted in some misinformation on your recent statements. Though we've been working with Schwab to fix this issue, it hasn't yet been corrected, which means you may again see something in your newest statement indicating that your interest payment from a particular investment was zero. Once again, that information is not accurate. Your payment hasn't changed, and we will continue working with Schwab to correct this problem. As always, if you have any questions about this or any other issue, call our office at any time.

1 *"The Fed is Probably Done Hiking Rates," CNN Business, Nov. 16, 2023*
2 *S&PGlobal.com*
3 *MarketWatch.com*

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